

AGENDA: December 7, 2004

4.11

CATEGORY: Consent

DEPT.: Finance and Administrative Services

TITLE: Acceptance of Auditors' Reports of Lessee
Compliance with City's Lessees

RECOMMENDATION

Accept and file the special agreed-upon procedure reports (Attachments 1 and 2 of the staff report) for Silicon Shores, Inc. and Michaels at Shoreline, City lessees of City-owned properties, pertaining to the year ended December 31, 2003, including staff comments.

FISCAL IMPACT – The City receives rent from various lessees.

BACKGROUND

The City has lease agreements with concession operators and receives rental income from these lease agreements. The City annually contracts with the independent auditors Maze & Associates (Maze) to perform specified procedures to determine if the lessees are in compliance with the financial and other aspects of the lease agreements. Pursuant to these lease agreements, rent is based on the gross receipts of the lessees' operations. As such, the focus of Maze is testing and verifying the accuracy of gross receipts reported and rent paid to the City. Determination of the financial position of the lessees is not within the scope of these reviews.

The City requested Maze perform reviews of:

- Shoreline Amphitheatre Partners
- Silicon Shores, Inc.
- Michaels at Shoreline

The Shoreline Amphitheatre Partners' reports will be brought forward at a later date.

ANALYSIS

SHORELINE AMPHITHEATRE PARTNERS

The City contracted with the accounting firm of Maze to conduct a review of the accounting records of the Shoreline Amphitheatre Partners (the Partnership) to verify compliance with rent determination, Section 3.01 of the agreement between the City and the Partnership.

The auditors perform various tests, including recalculations, vouching to source documents and analytical reviews of the Partnership's accounting records to determine if the City receives its share of gross receipts in accordance with the lease agreement.

Conclusion

The audits have not been completed due to outstanding issues related to the Amphitheatre and will be forwarded to Council at a later date.

SILICON SHORES, INC.

The City contracted with Maze to perform certain agreed-upon procedures analyzing the accounting records of Silicon Shores, Inc. (Silicon Shores) to verify compliance with the agreement between the City and Silicon Shores. This report was performed for the year ending December 31, 2003.

The auditors performed various tests, including analytical review procedures, recalculations and vouching to source documents of Silicon Shores' accounting records to determine compliance with the rent provisions of the lease agreement.

Conclusion

The auditors obtained a limited understanding of the internal accounting controls over cash receipts. No items were noted that would indicate a weakness in internal accounting controls over cash receipts.

Revenue for the year ending December 31, 2003 increased 36.9 percent for sailing rental, 4.6 percent for café and 145.6 percent for retail sales over the previous year. The increase in sailing rental revenue was the result of strategic expansion of summer programs, curriculum, camps and increased marketing and promotion efforts.

Total rent of \$90,309 was accurately paid for the reporting period and no outstanding amount is owed to the City.

MICHAELS AT SHORELINE

The City contracted with Maze to perform certain agreed-upon procedures of the accounting records of Michaels at Shoreline (Michaels) to verify compliance with the agreement between the City and Theodore F. Faravelli as the operator of Michaels.

The auditors performed various tests, including analytical review procedures, recalculations and vouching to source documents of Michaels' accounting records, to determine compliance with the rent provisions of the lease agreement.

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Conclusion

Overall sales for the year ended December 31, 2003 were down 5.2 percent. The decline is attributable to fewer patrons as office vacancies in the area remain high.

The auditors obtained a limited understanding of the internal accounting controls over cash receipts. No items were noted that would indicate a weakness in internal accounting controls over cash receipts.

Total rent due for the year of \$156,756 was overpaid to the City in the amount of \$4,415 and this amount has been refunded to the lessee.

The lessees have been notified of this meeting's agenda, and a representative from Maze & Associates will be present to answer questions. Staff is also available to respond to any questions.

PUBLIC NOTICING – Agenda posting.

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546-12-07-04M^

Attachments: 1 and 2. Agreed-Upon Procedure Reports